

LENOX MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

LENOX MUNICIPAL UTILITIES

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LENOX MUNICIPAL UTILITIES
Officials
December 31, 2015

<u>Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Kathy Arevalo	Trustee - Chairman	May 1, 2016
Norbert Bradley	Trustee	May 1, 2016
Wayne Haidsiak	Trustee	May 1, 2020
Debra Miller	Trustee	May 1, 2020
Jake Tripp	Trustee	May 1, 2018
John Borland	General Manager	

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lenox Municipal Utilities
Lenox, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of the business-type activities and each major fund of Lenox Municipal Utilities (a component unit of the City of Lenox, Iowa) as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Lenox Municipal Utilities

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Utilities' healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note M).

Qualified Opinions

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy referred to in the previous paragraph, the financial statements referred to above present fairly in all material respects, the financial position of the business-type activities and each major fund of Lenox Municipal Utilities as of December 31, 2015 and 2014 and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note O to the financial statements, Lenox Municipal Utilities adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule and the Schedules of the Utilities' Proportionate Share of the Net Pension Liability and of the Utilities' Contributions (and the related notes) on pages 33 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees
Lenox Municipal Utilities

The Utilities has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2016 on our consideration of Lenox Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gumewald, Ben, Kyhn & Co. P.C.

Atlantic, Iowa
February 10, 2016

LENOX MUNICIPAL UTILITIES
Statements of Net Position
December 31, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Capital Assets - net of depreciation	\$ 1,567,759	\$ 1,626,749	\$ 1,075,722	\$ 4,270,230
Special Purpose Funds:				
Restricted funds	--	150,000	40,527	190,527
Board designated funds	1,053,430	552,632	--	1,606,062
Total special purpose funds	1,053,430	702,632	40,527	1,796,589
Current Assets:				
Cash	201,547	213,792	13,154	428,493
Accounts receivable	157,657	82,065	13,779	253,501
Inventory	101,836	--	--	101,836
Prepaid expenses	11,036	2,580	2,415	16,031
Note receivable - Communication	50,000	--	--	50,000
Total current assets	522,076	298,437	29,348	849,861
Other Assets:				
Note receivable - Communication	723,553	--	--	723,553
Total assets	3,866,818	2,627,818	1,145,597	7,640,233
Deferred Outflows of Resources - Pension	6,700	5,200	2,900	14,800
Total assets and deferred outflows of resources	\$ 3,873,518	\$ 2,633,018	\$ 1,148,497	\$ 7,655,033

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)

Long-Term Debt, less current maturities	\$ --	\$ 1,067,000	\$ 1,380,453	\$ 2,447,453
Net Pension Liability	96,300	74,900	42,800	214,000
Current Liabilities:				
Current maturities of long-term debt	--	68,000	89,200	157,200
Accounts payable	86,095	27,682	10,511	124,288
Accrued employee compensation	4,918	7,494	2,738	15,150
Accrued expenses	5,860	5,050	4,524	15,434
Accrued interest	--	2,433	2,465	4,898
Total current liabilities	96,873	110,659	109,438	316,970
Other Liabilities:				
Consumer deposits	29,326	--	--	29,326
Total liabilities	222,499	1,252,559	1,532,691	3,007,749
Deferred Inflows of Resources - Pension	36,800	28,600	16,300	81,700
Net Position (Deficit):				
Invested in capital assets, net of related debt	1,567,759	491,749	(393,931)	1,665,577
Restricted - expendable	--	150,000	40,527	190,527
Unrestricted	2,046,460	710,110	(47,090)	2,709,480
Total net position (deficit)	3,614,219	1,351,859	(400,494)	4,565,584
Total liabilities, deferred inflows of resources, and net position	\$ 3,873,518	\$ 2,633,018	\$ 1,148,497	\$ 7,655,033

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Net Position
December 31, 2014
(Not Restated)

ASSETS

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Capital Assets - net of depreciation	\$ 1,461,320	\$ 1,443,714	\$ 1,124,031	\$ 4,029,065
Special Purpose Funds:				
Restricted funds	--	150,000	112,416	262,416
Board designated funds	987,233	519,294	--	1,506,527
Total special purpose funds	987,233	669,294	112,416	1,768,943
Current Assets:				
Cash	135,889	113,506	--	249,395
Accounts receivable	208,103	87,776	11,786	307,665
Inventory	86,394	--	--	86,394
Prepaid expenses	11,316	3,041	2,061	16,418
Note receivable - Communication	49,000	--	--	49,000
Total current assets	490,702	204,323	13,847	708,872
Other Assets:				
Note receivable - Communication	732,568	--	--	732,568
Total assets	<u>\$ 3,671,823</u>	<u>\$ 2,317,331</u>	<u>\$ 1,250,294</u>	<u>\$ 7,239,448</u>

LIABILITIES AND NET POSITION (DEFICIT)

Long-Term Debt, less current maturities	\$ --	\$ 978,253	\$ 1,428,668	\$ 2,406,921
Current Liabilities:				
Current maturities of long-term debt	--	67,000	86,700	153,700
Checks issued in excess of cash balance	--	--	42,644	42,644
Accounts payable	88,908	59,587	20,242	168,737
Accrued employee compensation	7,976	5,356	3,321	16,653
Accrued expenses	8,252	4,637	5,936	18,825
Accrued interest	--	2,413	2,599	5,012
Total current liabilities	105,136	138,993	161,442	405,571
Other Liabilities:				
Consumer deposits	23,867	--	--	23,867
Total liabilities	129,003	1,117,246	1,590,110	2,836,359
Net Position (Deficit):				
Invested in capital assets, net of related debt	1,461,320	398,461	(391,337)	1,468,444
Restricted - expendable	--	150,000	112,416	262,416
Unrestricted	2,081,500	651,624	(60,895)	2,672,229
Total net position (deficit)	3,542,820	1,200,085	(339,816)	4,403,089
Total liabilities and net position	<u>\$ 3,671,823</u>	<u>\$ 2,317,331</u>	<u>\$ 1,250,294</u>	<u>\$ 7,239,448</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended December 31, 2015

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Operating Revenues:				
Current use charges	\$ 1,682,686	\$ 902,678	\$ 559,534	\$ 3,144,898
Miscellaneous and rentals	<u>69,135</u>	<u>166,004</u>	<u>--</u>	<u>235,139</u>
Total operating revenues	<u>1,751,821</u>	<u>1,068,682</u>	<u>559,534</u>	<u>3,380,037</u>
Operating Expenses:				
Administrative	234,594	93,649	143,582	471,825
Sales and use taxes	2,318	--	126	2,444
Payroll and payroll taxes	186,267	156,882	87,471	430,620
Office expense	12,464	13,127	9,899	35,490
Repairs and maintenance	14,400	4,361	1,143	19,904
Plant expense	886,481	409,633	228,733	1,524,847
Distribution expense	102,515	23,378	--	125,893
Bad debts	1,660	545	2,381	4,586
Depreciation	<u>99,882</u>	<u>95,519</u>	<u>48,309</u>	<u>243,710</u>
Total operating expenses	<u>1,540,581</u>	<u>797,094</u>	<u>521,644</u>	<u>2,859,319</u>
Operating Income	211,240	271,588	37,890	520,718
Non-Operating Revenues (Expenses):				
Interest income	21,089	6,339	722	28,150
Interest expense	--	(28,649)	(38,090)	(66,739)
Gain (loss) on sale	<u>(23,230)</u>	<u>4,377</u>	<u>--</u>	<u>(18,853)</u>
Non-Operating Expenses, net	<u>(2,141)</u>	<u>(17,933)</u>	<u>(37,368)</u>	<u>(57,442)</u>
Changes in Net Position Before Transfers	209,099	253,655	522	463,276
Transfers from City	<u>--</u>	<u>5,219</u>	<u>--</u>	<u>5,219</u>
Changes in Net Position	209,099	258,874	522	468,495
Net Position, Beginning of Year, As Restated (Note O)	<u>3,405,120</u>	<u>1,092,985</u>	<u>(401,016)</u>	<u>4,097,089</u>
Net Position, End of Year	<u>\$ 3,614,219</u>	<u>\$ 1,351,859</u>	<u>\$(400,494)</u>	<u>\$ 4,565,584</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended December 31, 2014
(Not Restated)

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Operating Revenues:				
Current use charges	\$ 1,742,216	\$ 883,442	\$ 498,278	\$ 3,123,936
Miscellaneous and rentals	<u>68,434</u>	<u>290,671</u>	<u>--</u>	<u>359,105</u>
Total operating revenues	<u>1,810,650</u>	<u>1,174,113</u>	<u>498,278</u>	<u>3,483,041</u>
Operating Expenses:				
Administrative	175,478	123,993	163,864	463,335
Sales and use taxes	670	--	--	670
Payroll and payroll taxes	254,349	148,800	58,739	461,888
Office expense	19,931	15,932	38,736	74,599
Repairs and maintenance	14,214	8,955	1,214	24,383
Plant expense	891,915	416,330	207,265	1,515,510
Distribution expense	75,701	28,903	--	104,604
Bad debts	984	941	511	2,436
Depreciation	<u>97,976</u>	<u>85,523</u>	<u>48,308</u>	<u>231,807</u>
Total operating expenses	<u>1,531,218</u>	<u>829,377</u>	<u>518,637</u>	<u>2,879,232</u>
Operating Income (Loss)	279,432	344,736	(20,359)	603,809
Non-Operating Revenues (Expenses):				
Interest income	8,952	2,629	712	12,293
Interest expense	--	(27,185)	(36,642)	(63,827)
Amortization	<u>--</u>	<u>--</u>	<u>(2,306)</u>	<u>(2,306)</u>
Non-Operating Expenses, net	<u>8,952</u>	<u>(24,556)</u>	<u>(38,236)</u>	<u>(53,840)</u>
Changes in Net Position Before Transfers	288,384	320,180	(58,595)	549,969
Transfers from City	<u>--</u>	<u>5,612</u>	<u>--</u>	<u>5,612</u>
Changes in Net Position	288,384	325,792	(58,595)	555,581
Net Position, Beginning of Year	<u>3,254,436</u>	<u>874,293</u>	<u>(281,221)</u>	<u>3,847,508</u>
Net Position, End of Year	<u>\$ 3,542,820</u>	<u>\$ 1,200,085</u>	<u>\$(339,816)</u>	<u>\$ 4,403,089</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended December 31, 2015

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from consumers	\$ 1,731,472	\$ 907,844	\$ 555,160	\$ 3,194,476
Cash paid to suppliers	(1,302,722)	(598,756)	(409,209)	(2,310,687)
Cash paid to employees	(171,042)	(139,967)	(78,825)	(389,834)
Other operating revenue	<u>69,135</u>	<u>166,004</u>	<u>--</u>	<u>235,139</u>
Net cash provided by operating activities	326,843	335,125	67,126	729,094
Cash flows from noncapital financing activities:				
Checks issued in excess of cash balance	--	--	(42,644)	(42,644)
Transfers from City	--	5,219	--	5,219
Consumer deposits, net	<u>5,459</u>	<u>--</u>	<u>--</u>	<u>5,459</u>
Net cash provided by (used in) noncapital financing activities	5,459	5,219	(42,644)	(31,966)
Cash flows from capital and related financing activities:				
Capital asset purchases	(230,051)	(278,554)	--	(508,605)
Proceeds from sale of assets	500	4,377	--	4,877
Note proceeds	--	156,747	--	156,747
Principal payments	--	(67,000)	(45,715)	(112,715)
Interest paid	<u>--</u>	<u>(28,629)</u>	<u>(38,224)</u>	<u>(66,853)</u>
Net cash used in capital and related financing activities	(229,551)	(213,059)	(83,939)	(526,549)
Cash flows from investing activities:				
Note payments received from Communications	8,015	--	--	8,015
Income from investments	<u>21,089</u>	<u>6,339</u>	<u>722</u>	<u>28,150</u>
Net cash provided by investing Activities	29,104	6,339	722	36,165
Net increase (decrease) in cash	131,855	133,624	(58,735)	206,744
Cash at beginning of year	<u>1,123,122</u>	<u>782,800</u>	<u>112,416</u>	<u>2,018,338</u>
Cash at end of year	<u>\$ 1,254,977</u>	<u>\$ 916,424</u>	<u>\$ 53,681</u>	<u>\$ 2,225,082</u>
Reconciliation of cash to the balance sheets:				
Cash in current assets	\$ 201,547	\$ 213,792	\$ 13,154	\$ 428,493
Cash in special purpose funds	<u>1,053,430</u>	<u>702,632</u>	<u>40,527</u>	<u>1,796,589</u>
Total cash	<u>\$ 1,254,977</u>	<u>\$ 916,424</u>	<u>\$ 53,681</u>	<u>\$ 2,225,082</u>

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LENOX MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended December 31, 2015

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Reconciliation of income from operations to net cash provided by operating activities:				
Income from operations	\$ 211,240	\$ 271,588	\$ 37,890	\$ 520,718
Adjustments to reconcile income from operations to net cash provided by operating activities				
Depreciation	99,882	95,519	48,309	243,710
Bad debts	1,660	545	2,381	4,586
Change in assets and liabilities				
Accounts receivable	48,786	5,166	(4,374)	49,578
Inventory	(15,442)	--	--	(15,442)
Prepaid expenses	280	461	(354)	387
Deferred outflows of resources	8,600	6,700	3,900	19,200
Net pension liability	(56,700)	(44,100)	(25,200)	(126,000)
Accounts payable, trade	(2,813)	(31,905)	(9,731)	(44,449)
Accrued expenses	(2,392)	413	(1,412)	(3,391)
Accrued employee compensation	(3,058)	2,138	(583)	(1,503)
Deferred inflows of resources	36,800	28,600	16,300	81,700
Total adjustments	<u>115,603</u>	<u>63,537</u>	<u>29,236</u>	<u>208,376</u>
Net cash provided by operating activities	<u>\$ 326,843</u>	<u>\$ 335,125</u>	<u>\$ 67,126</u>	<u>\$ 729,094</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended December 31, 2014
(Not Restated)

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from consumers	\$ 1,691,847	\$ 871,763	\$ 497,283	\$ 3,060,893
Cash paid to suppliers	(1,183,814)	(591,600)	(431,755)	(2,207,169)
Cash paid to employees	(215,702)	(125,021)	(48,338)	(389,061)
Other operating revenue	<u>68,434</u>	<u>290,671</u>	<u>--</u>	<u>359,105</u>
Net cash provided by operating activities	360,765	445,813	17,190	823,768
Cash flows from noncapital financing activities:				
Checks issued in excess of cash balance	--	--	42,644	42,644
Transfers from City	--	5,612	--	5,612
Consumer deposits, net	<u>5,917</u>	<u>--</u>	<u>--</u>	<u>5,917</u>
Net cash provided by noncapital financing activities	5,917	5,612	42,644	54,173
Cash flows from capital and related financing activities:				
Capital asset purchases	(26,250)	(522,700)	--	(548,950)
Note proceeds	--	295,253	1,540,000	1,835,253
Principal payments	--	(47,000)	(1,564,632)	(1,611,632)
Interest paid	<u>--</u>	<u>(26,803)</u>	<u>(39,177)</u>	<u>(65,980)</u>
Net cash used in capital and related financing activities	(26,250)	(301,250)	(63,809)	(391,309)
Cash flows from investing activities:				
Note advance to Communications	(790,000)	--	--	(790,000)
Note payments received from Communications	8,432	--	--	8,432
Income from investments	<u>8,952</u>	<u>2,629</u>	<u>712</u>	<u>12,293</u>
Net cash provided by (used in) investing Activities	<u>(772,616)</u>	<u>2,629</u>	<u>712</u>	<u>(769,275)</u>
Net increase (decrease) in cash	(432,184)	152,804	(3,263)	(282,643)
Cash at beginning of year	<u>1,555,306</u>	<u>629,996</u>	<u>115,679</u>	<u>2,300,981</u>
Cash at end of year	<u>\$ 1,123,122</u>	<u>\$ 782,800</u>	<u>\$ 112,416</u>	<u>\$ 2,018,338</u>
Reconciliation of cash to the balance sheets:				
Cash in current assets	\$ 135,889	\$ 113,506	\$ --	\$ 249,395
Cash in special purpose funds	<u>987,233</u>	<u>669,294</u>	<u>112,416</u>	<u>1,768,943</u>
Total cash	<u>\$ 1,123,122</u>	<u>\$ 782,800</u>	<u>\$ 112,416</u>	<u>\$ 2,018,338</u>

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LENOX MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended December 31, 2014
(Not Restated)

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Reconciliation of income (loss) from operations to net cash provided by operating activities:				
Income (loss) from operations	\$ 279,432	\$ 344,736	\$ (20,359)	\$ 603,809
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities				
Depreciation	97,976	85,523	48,308	231,807
Bad debts	984	941	511	2,436
Change in assets and liabilities				
Accounts receivable	(50,369)	(11,679)	(995)	(63,043)
Inventory	20,263	--	--	20,263
Prepaid expenses	1,634	(71)	(448)	1,115
Accounts payable, trade	6,965	23,138	(12,047)	18,056
Accrued expenses	1,083	345	1,589	3,017
Accrued employee compensation	2,797	2,880	631	6,308
Total adjustments	<u>81,333</u>	<u>101,077</u>	<u>37,549</u>	<u>219,959</u>
Net cash provided by operating activities	<u>\$ 360,765</u>	<u>\$ 445,813</u>	<u>\$ 17,190</u>	<u>\$ 823,768</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Lenox Municipal Utilities provides electricity, water, and communication services to the City of Lenox and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

Lenox Municipal Utilities has been identified as a component unit of the City of Lenox, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the electric, water and communication services. Lenox Municipal Utilities provides billing and collection services for the City of Lenox, however, those amounts have been eliminated for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Lenox and do not present consolidated information.

The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Basis of Presentation

The Statement of Net Position displays the Utilities' assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Utilities.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Utilities' policy to use restricted net position first.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Capital Assets and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

6. Accounts Receivable and Revenue Recognition

Billings for electric, water, and communication revenues are rendered monthly. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

At December 31, 2015 and 2014, management considered accounts receivable to be fully collectible and, therefore, these financial statements do not contain an allowance for doubtful accounts.

7. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

8. Investments

Investments are carried at fair value except for short-term highly liquid investments with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other non-operating revenue when earned.

9. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The restricted funds, as discussed in Note D, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

10. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

11. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 160 hours. Any excess over 160 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

12. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Lenox city limits. The property taxes are recorded as of the date they are paid.

14. Cash Equivalents

For purposes of the statement of cash flows, the Lenox Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

15. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs. The Utilities had no major construction projects covering more than one year, therefore, no interest was capitalized during 2015 or 2014.

NOTE B - TRANSACTIONS WITH CITY OF LENOX, IOWA

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Lenox. This service is provided for a minimal charge to the City.

The Utilities provide electric, water, and communication services to the City of Lenox without charge.

Following is a summary of activity between the Utilities and City during the year:

<u>Water</u>	<u>2015</u>	<u>2014</u>
Sewer Fees Collected for City	\$ <u>201,965</u>	\$ <u>176,260</u>
Charge to City for Sewer Billing Service	\$ <u>5,219</u>	\$ <u>5,612</u>

There is also an operating agreement with the City of Lenox that states the City shall repay Lenox Municipal Utilities for the contributions made by Lenox Municipal Utilities to purchase the wind turbine and reimburse the Utilities for operating expenses of the wind turbine in excess of revenues generated. If revenues of the wind turbine are greater than its operating expenses, the Utilities is to pay the City this excess revenue. No settlement has been made between the City and the Utilities for 2015 and 2014. The operating agreement is in effect for a period of 20 years from the effective date of the agreement. The agreement provides that at the time of termination of the agreement, the City of Lenox will assign all accompanying responsibilities for the wind turbine generator to Lenox Municipal Utilities.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE C - TRANSACTIONS BETWEEN ELECTRIC, WATER, AND COMMUNICATIONS
DEPARTMENTS

Certain administrative costs are split between the Electric, Water, and Communications Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric, Water, and Communications Departments at December 31:

	<u>2015</u>	<u>2014</u>
Interest income (Electric) and expense (Communications) during the year	\$ <u>7,765</u>	\$ <u>4,968</u>
Note advanced (Electric) and received (Communications) during the year	\$ <u>--</u>	\$ <u>790,000</u>
Note received (Electric) and paid (Communications) during the year	\$ <u>8,015</u>	\$ <u>8,432</u>
	<u>2015</u>	<u>2014</u>
Interest bearing note due to Electric from Communications Department	\$ 773,553	\$ 781,568
Less current portion	<u>50,000</u>	<u>49,000</u>
	<u>\$ 723,553</u>	<u>\$ 732,568</u>

See Note J for details of the interest bearing note due to Electric from Communications.

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated net position are available for the following purposes:

Electric Fund

	<u>2015</u>	<u>2014</u>
Board designated for:		
Facility repairs and capital expenditures	\$ <u>1,053,430</u>	\$ <u>987,233</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE D - SPECIAL PURPOSE FUNDS - Continued

Water Fund

	<u>2015</u>	<u>2014</u>
Restricted by debt resolution for payment of principal and interest:		
Sinking fund	\$ 75,000	\$ 75,000
Reserve fund	<u>75,000</u>	<u>75,000</u>
Total restricted funds	<u>\$ 150,000</u>	<u>\$ 150,000</u>
Board designated for:		
Facility repairs and capital expenditures	<u>\$ 552,632</u>	<u>\$ 519,294</u>

Communication Fund

Restricted by debt resolution for payment of principal and interest:		
Reserve fund	<u>\$ 40,527</u>	<u>\$ 112,416</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2015 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of restricted and designated assets is as follows:

Electric Fund

	<u>2015</u>	<u>2014</u>
Board designated funds:		
Cash and cash equivalents	<u>\$ 1,053,430</u>	<u>\$ 987,233</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE E - DEPOSITS AND INVESTMENTS - Continued

Water Fund

	<u>2015</u>	<u>2014</u>
Restricted funds:		
Cash and cash equivalents	\$ <u>150,000</u>	\$ <u>150,000</u>
Board designated funds:		
Cash and cash equivalents	\$ <u>552,632</u>	\$ <u>519,294</u>

Communication Fund

Restricted funds:		
Cash and cash equivalents	\$ <u>40,527</u>	\$ <u>112,416</u>

Interest rate risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

NOTE F - FAIR VALUE MEASUREMENTS

The electric fund's note receivable from the communication fund is reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Utilities uses appropriate valuation techniques based on the available inputs to measure the fair value of its note receivable. When available, the Utilities measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Utilities, therefore, Level 3 inputs were used to value its investments at December 31, 2015 and 2014.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The electric fund's note receivable is not actively traded and significant other observable inputs are not available. The fair value of the note receivable is based on contract value. Level 3 fair value for the note receivable was \$773,553 at December 31, 2015 (\$781,568 at December 31, 2014). Management believes these values approximate current fair value.

The following table reconciles the beginning and ending balances of fair value measurement for the Utilities' Level 3 asset using unobservable inputs for the years ended December 31, 2015 and 2014:

December 31, 2015

Beginning balance	\$ 781,568
Collections on note receivable	<u>(8,015)</u>
Ending balance	<u>\$ 773,553</u>

December 31, 2014

Beginning balance	\$ --
Note receivable advance	790,000
Collections on note receivable	<u>(8,432)</u>
Ending balance	<u>\$ 781,568</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2015 and 2014 were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
<u>Electric Fund</u>				
Plant and Equipment	\$ 3,917,484	\$ 45,354	\$ 109,816	\$ 3,853,022
Depreciation	<u>(2,456,164)</u>	<u>(99,882)</u>	<u>86,086</u>	<u>(2,469,960)</u>
Depreciable Capital Assets, net	<u>\$ 1,461,320</u>	<u>\$ (54,528)</u>	<u>\$ 23,730</u>	<u>\$ 1,383,062</u>
Construction in Progress	\$ --	\$ 180,697	\$ --	\$ 180,697
Land	<u>--</u>	<u>4,000</u>	<u>--</u>	<u>4,000</u>
Non-Depreciable Capital Assets	<u>\$ --</u>	<u>\$ 184,697</u>	<u>\$ --</u>	<u>\$ 184,697</u>
Total Capital Assets, net	<u>\$ 1,461,320</u>	<u>\$ 130,169</u>	<u>\$ (23,730)</u>	<u>\$ 1,567,759</u>
	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
<u>Electric Fund</u>				
Plant and Equipment	\$ 3,891,234	\$ 26,250	\$ --	\$ 3,917,484
Depreciation	<u>(2,358,188)</u>	<u>(97,976)</u>	<u>--</u>	<u>(2,456,164)</u>
Depreciable Capital Assets, net	<u>\$ 1,533,046</u>	<u>\$ (71,726)</u>	<u>\$ --</u>	<u>\$ 1,461,320</u>
	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
<u>Water Fund</u>				
Plant and Equipment	\$ 3,160,630	\$ 274,554	\$ 33,250	\$ 3,401,934
Depreciation	<u>(1,748,916)</u>	<u>(95,519)</u>	<u>33,250</u>	<u>(1,811,185)</u>
Depreciable Capital Assets, net	<u>\$ 1,411,714</u>	<u>\$ 179,035</u>	<u>\$ --</u>	<u>\$ 1,590,749</u>
Non-Depreciable Capital Assets - Land	<u>\$ 32,000</u>	<u>\$ 4,000</u>	<u>\$ --</u>	<u>\$ 36,000</u>
Total Capital Assets, net	<u>\$ 1,443,714</u>	<u>\$ 183,035</u>	<u>\$ --</u>	<u>\$ 1,626,749</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
<u>Water Fund</u>				
Plant and Equipment	\$ 2,637,930	\$ 522,700	\$ --	\$ 3,160,630
Depreciation	<u>(1,663,393)</u>	<u>(85,523)</u>	<u>--</u>	<u>(1,748,916)</u>
Depreciable Capital Assets, net	<u>\$ 974,537</u>	<u>\$ 437,177</u>	<u>\$ --</u>	<u>\$ 1,411,714</u>
Non-Depreciable Capital Assets - Land	<u>\$ 32,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 32,000</u>
Total Capital Assets, net	<u>\$ 1,006,537</u>	<u>\$ 437,177</u>	<u>\$ --</u>	<u>\$ 1,443,714</u>
	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
<u>Communication Fund</u>				
Plant and Equipment	\$ 1,435,677	\$ --	\$ --	\$ 1,435,677
Depreciation	<u>(311,646)</u>	<u>(48,309)</u>	<u>--</u>	<u>(359,955)</u>
Depreciable Capital Assets, net	<u>\$ 1,124,031</u>	<u>\$ (48,309)</u>	<u>\$ --</u>	<u>\$ 1,075,722</u>
	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
<u>Communication Fund</u>				
Plant and Equipment	\$ 1,435,677	\$ --	\$ --	\$ 1,435,677
Depreciation	<u>(263,338)</u>	<u>(48,308)</u>	<u>--</u>	<u>(311,646)</u>
Depreciable Capital Assets, net	<u>\$ 1,172,339</u>	<u>\$ (48,308)</u>	<u>\$ --</u>	<u>\$ 1,124,031</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE H - ELECTRIC FUND NON-CURRENT LIABILITIES

A schedule of changes in Electric Fund non-current liabilities for the years ended December 31, 2015 and 2014 follows:

<u>Electric Fund</u>	<u>Balance 2014 as restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>
Consumer Deposits, net	\$ 23,867	\$ 5,459	\$ --	\$ 29,326
Net Pension Liability	<u>153,000</u>	<u>--</u>	<u>56,700</u>	<u>96,300</u>
Total Non-Current Liabilities	<u>\$ 176,867</u>	<u>\$ 5,459</u>	<u>\$ 56,700</u>	<u>\$ 125,626</u>
<u>Electric Fund</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>
Consumer Deposits, net	\$ 17,950	\$ 5,917	\$ --	\$ 23,867
Total Non-Current Liabilities	<u>\$ 17,950</u>	<u>\$ 5,917</u>	<u>\$ --</u>	<u>\$ 23,867</u>

NOTE I - WATER FUND NON-CURRENT LIABILITIES

A schedule of changes in Water Fund non-current liabilities for the years ended December 31, 2015 and 2014 follows:

<u>Water Fund</u>	<u>Balance 2014 as restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>
2006 Revenue Bonds	\$ 750,000	\$ --	\$ 48,000	\$ 702,000
2014 Revenue Bonds	295,253	156,747	19,000	433,000
Net Pension Liability	119,000	--	44,100	74,900
Less Current Portion	<u>(67,000)</u>	<u>(68,000)</u>	<u>(67,000)</u>	<u>(68,000)</u>
Long-Term Debt, net	<u>\$ 1,097,253</u>	<u>\$ 88,747</u>	<u>\$ 44,100</u>	<u>\$ 1,141,900</u>
<u>Water Fund</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>
2006 Revenue Bonds	\$ 797,000	\$ --	\$ 47,000	\$ 750,000
2014 Revenue Bonds	--	295,253	--	295,253
Less Current Portion	<u>(47,000)</u>	<u>(67,000)</u>	<u>(47,000)</u>	<u>(67,000)</u>
Long-Term Debt, net	<u>\$ 750,000</u>	<u>\$ 228,253</u>	<u>\$ --</u>	<u>\$ 978,253</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE I - WATER FUND NON-CURRENT LIABILITIES - Continued

Water Revenue Bonds, Series 2006

On October 6, 2006, Lenox Municipal Utilities issued water revenue bonds in the amount of \$1,150,000 with interest at the rate of 3 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commenced on June 1, 2008 and are due annually thereafter until paid in full. Debt service payments are payable solely from the net revenues of the water utility.

Water Revenue Bonds, Series 2014

On July, 11, 2014, Lenox Municipal Utilities issued water revenue bonds in the amount of \$452,000 with interest at the rate of 1.75 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commenced on June 1, 2015 and are due annually thereafter until paid in full. Debt service payments are payable solely from the net revenues of the water utility.

The annual debt service on the bonds is expected to require less than 26% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$95,600 and \$378,400, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2006 water revenue bonds specify the creation and maintenance of a sinking fund and a debt service reserve fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date.

Principal and interest payments required on Water Fund long-term debt during each of the five years ending December 31, 2016 through 2020 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 68,000	\$ 27,737	\$ 95,737
2017	70,000	25,904	95,904
2018	72,000	24,017	96,017
2019	74,000	22,077	96,077
2020	76,000	20,077	96,077
2021 - 2025	414,000	68,357	482,357
2026 - 2030	256,000	18,634	274,634
2031 - 2034	105,000	3,737	108,737
	<u>\$ 1,135,000</u>	<u>\$ 210,540</u>	<u>\$ 1,345,540</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE J - COMMUNICATION FUND NON-CURRENT LIABILITIES

A schedule of changes in Communication Fund non-current liabilities for the years ended December 31, 2015 and 2014 follows:

<u>Communication Fund</u>	<u>Balance 2014 as restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>
2014 Revenue Notes	\$ 733,800	\$ --	\$ 37,700	\$ 696,100
Note Payable Electric Department	781,568	--	8,015	773,553
Net Pension Liability	68,000	--	25,200	42,800
Less Current Portion	<u>(86,700)</u>	<u>(89,200)</u>	<u>(86,700)</u>	<u>(89,200)</u>
Long-Term Debt, Net	<u>\$ 1,496,668</u>	<u>\$ (89,200)</u>	<u>\$ (15,785)</u>	<u>\$ 1,423,253</u>
<u>Communication Fund</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>
2011 Revenue Notes	\$ 1,540,000	\$ --	\$ 1,540,000	\$ --
2014 Revenue Notes	--	750,000	16,200	733,800
Note Payable Electric Department	--	790,000	8,432	781,568
Less Current Portion	<u>(1,540,000)</u>	<u>(86,700)</u>	<u>(1,540,000)</u>	<u>(86,700)</u>
Long-Term Debt, Net	<u>\$ --</u>	<u>\$ 1,453,300</u>	<u>\$ 24,632</u>	<u>\$ 1,428,668</u>

Lenox Municipal Utilities issued Communications Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011, dated May 1, 2011, in the amount of \$1,540,000 for the purpose of refinancing the 2008 Iowa Finance Authority Note and the note payable to Electric Fund. Interest was payable on May 1 and November 1 of each year until paid. The note had interest at the rate of 2.0%. Debt service payments were payable solely from the net revenues of the communication system. The notes matured May 1, 2014.

Lenox Municipal Utilities issued communications Revenue Refunding Note, Series 2014 dated May 1, 2014 in the amount of \$750,000 for the purpose of partially refinancing the 2011 Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011. Interest and principal is payable monthly. The note bears interest at the rate of 4.25% and is payable to a local bank. Debt service payments are payable solely from the net revenues of the Communication System. The notes mature May 1, 2029.

The note payable to the Electric Fund was issued on May 1, 2014 in the amount of \$790,000 for the purpose of partially refinancing the 2011 Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011. Interest on the note is payable semi-annually on May 1 and November 1 of each year the notes are outstanding at an interest rate of 1%. The communication fund began making monthly payments to the electric fund during 2014; however, principal payments on the notes were not scheduled to commence until May 1, 2015 and were due annually thereafter until paid in full. The notes mature May 1, 2029.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE J - COMMUNICATION FUND NON-CURRENT LIABILITIES - Continued

The annual debt service on the notes is expected to require approximately 100 percent of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$83,900 and \$89,300, respectively. The difference is being funded through existing reserves of the Utilities.

Principal and interest payments required on Communication Fund long-term debt during each of the five years ending December 31, 2016 through 2020 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 89,200	\$ 35,986	\$ 125,186
2017	91,200	33,781	124,981
2018	92,800	31,499	124,299
2019	95,800	29,136	124,936
2020	98,600	26,683	125,283
2021-2025	532,200	93,380	625,580
2026-2029	469,853	20,923	490,776
	<u>\$ 1,469,653</u>	<u>\$ 271,388</u>	<u>\$ 1,741,041</u>

NOTE K - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided by general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE K - PENSION PLAN - Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Utilities contributed 8.93% for a total rate of 14.88%.

The Utilities' contributions to IPERS for the year ended December 31, 2015 were \$34,294.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE K - PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the Utilities reported a liability of \$214,000 for its proportionate share of the net pension liability. The Utilities net pension liability was estimated as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an estimate of an actuarial valuation. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At December 31, 2014, the Utilities' proportion was 0.005291%, which was a decrease of 0.000720% from its proportion measured as of December 31, 2013. For the year ended December 31, 2015, the Utilities' recognized pension expense of \$9,371. At December 31, 2015, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Electric		Water	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,100	\$ --	\$ 800	\$ --
Changes of assumptions	4,200	--	3,300	--
Net difference between projected and actual earnings on pension plan investments	--	36,800	--	28,600
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	(14,100)	--	(11,000)	--
Utilities contributions subsequent to the measurement date	15,500	--	12,100	--
	<u>\$ 6,700</u>	<u>\$ 36,800</u>	<u>\$ 5,200</u>	<u>\$ 28,600</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE K - PENSION PLAN - Continued

	<u>Communication</u>		<u>Total All Utilities</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 400	\$ --	\$ 2,300	\$ --
Changes of assumptions	1,900	--	9,400	--
Net difference between projected and actual earnings on pension plan investments	--	16,300	--	81,700
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	(6,200)	--	(31,300)	--
Utilities contributions subsequent to the measurement date	<u>6,800</u>	<u>--</u>	<u>34,400</u>	<u>--</u>
	<u>\$ 2,900</u>	<u>\$ 16,300</u>	<u>\$ 14,800</u>	<u>\$ 81,700</u>

The \$34,400, reported as deferred outflows of resources related to pensions resulting from the Utilities contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total All Utilities</u>
2016	\$(11,256)	\$(8,762)	\$(4,986)	\$(25,004)
2017	(11,256)	(8,762)	(4,986)	(25,004)
2018	(11,256)	(8,762)	(4,986)	(25,004)
2019	(11,256)	(8,762)	(4,986)	(25,004)
2020	(576)	(452)	(256)	(1,284)
	<u>\$(45,600)</u>	<u>\$(35,500)</u>	<u>\$(20,200)</u>	<u>\$(101,300)</u>

There were no non-employer contribution entities at IPERS.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE K - PENSION PLAN - Continued

Actuarial Assumptions - The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00%
Salary increases (effective June 30, 2014)	4.00%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50% per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE K - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Electric	\$ 182,300	\$ 96,300	\$ 23,900
Water	141,700	74,900	18,500
Communication	81,000	42,800	10,600
Utilities' proportionate share of the net pension liability	<u>\$ 405,000</u>	<u>\$ 214,000</u>	<u>\$ 53,000</u>

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At December 31, 2015, the Utilities reported payables to the defined benefit pension plan of \$ - 0 - for legally required employer contributions and \$ - 0 - for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE L - DEFERRED COMPENSATION PLAN

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457 through the ICMA Retirement Corporation's Deferred Compensation Plan. The Plan allows Utilities employees to defer a portion of their current salary until future years. The Utilities' accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE L - DEFERRED COMPENSATION PLAN - Continued

The Utilities' fiduciary responsibility is limited to due care in selecting contractors to administer the Plan. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Utilities. The Utilities is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at December 31, 2015 was approximately \$70,600 (\$83,700 at December 31, 2014). This amount is not included in the financial statements since the Utilities does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The Utilities operate a single-employer health benefit plan which provides medical, prescription drug, dental, and vision benefits for employees, retirees, and their spouses. There are 8 active and 0 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical, prescription drug, dental, and vision benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy: The contribution requirements of plan members are established and may be amended by the Utilities. The Utilities currently finance the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utilities and plan members are \$455 for single coverage and \$1,003 for family coverage. For the year ended December 31, 2015, the Utilities contributed \$83,920 and plan members eligible for benefits contributed \$6,200 to the plan.

Net OPEB Obligation: Management of the Utilities considers any OPEB obligation, which may exist, to be immaterial. Therefore the Utilities has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE N - COMMITMENTS AND CONTINGENCIES

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Off Balance Sheet and Concentration of Credit Risk

Accounts receivable are due for electric, water, and communication charges to customers of Lenox, Iowa and the surrounding area. None of the receivables are collateralized. To date, these concentrations of credit risk have not had an adverse effect on the results of operations of the Utilities.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

Construction

The Electric Department of the Utilities has entered into contracts totaling approximately \$1,200,000 for a generator. The purchase will be made with funds generated internally and proceeds of the financing through CAT financing.

Subsequent Events

The Utilities has evaluated all subsequent events through February 10, 2016, the date the financial statements were available to be issued.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2015 and 2014

NOTE O - ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Combined Net Position</u>
Net position December 31, 2014, as previously reported	\$ 3,542,820	\$ 1,200,085	\$(339,816)	\$ 4,403,089
Net pension liability at December 31, 2014	(153,000)	(119,000)	(68,000)	(340,000)
Deferred outflows of resources related to contributions made after the December 31, 2014 measurement date	<u>15,300</u>	<u>11,900</u>	<u>6,800</u>	<u>34,000</u>
Net position January 1, 2015, as restated	<u>\$ 3,405,120</u>	<u>\$ 1,092,985</u>	<u>\$(401,016)</u>	<u>\$ 4,097,089</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

LENOX MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended December 31, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments and net position differently for financial statement and budget purposes.

	Per Financial Statements			Budget	Combined
	Electric	Water	Communication	Adjustments	Utilities
Revenues	\$ 1,749,680	\$ 1,084,617	\$ 560,256	\$ --	\$ 3,394,553
Expenses	<u>1,540,581</u>	<u>825,743</u>	<u>559,734</u>	<u>112,715</u>	<u>3,038,773</u>
Net	209,099	258,874	522	(112,715)	355,780
Balance beginning of year	<u>3,405,120</u>	<u>1,092,985</u>	<u>(401,016)</u>	<u>150,152</u>	<u>4,247,241</u>
Balance end of year	<u>\$ 3,614,219</u>	<u>\$ 1,351,859</u>	<u>\$ (400,494)</u>	<u>\$ 37,437</u>	<u>\$ 4,603,021</u>
			Budget Basis	Budget	Variance Favorable (Unfavorable)
Revenues			\$ 3,394,553	\$ 3,156,835	\$ 237,718
Expenses			<u>3,038,773</u>	<u>3,222,285</u>	<u>183,512</u>
Net			355,780	(65,450)	421,230
Balance beginning of year			<u>4,247,241</u>	<u>4,247,241</u>	<u>--</u>
Balance end of year			<u>\$ 4,603,021</u>	<u>\$ 4,181,791</u>	<u>\$ 421,230</u>

See Independent Auditor's Report.

LENOX MUNICIPAL UTILITIES
Schedule of the Utilities' Proportionate Share of the Net IPERS Pension Liability
December 31, 2015

	<u>Required Information</u>
Utilities' proportion of the net pension liability	0.05291%
Utilities' proportionate share of the net pension liability	\$ 214,000
Utilities' covered-employee payroll	\$ 383,000
Utilities' proportionate share of the net pension liability as a percentage of its covered-employee payroll	55.87%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utilities will present information for those years for which information is available. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

LENOX MUNICIPAL UTILITIES
Schedule of Utilities IPERS Pension Contributions
Year Ended December 31,

	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 34,000	\$ 34,000
Contributions in relation to the statutorily required contribution	<u>(34,000)</u>	<u>(34,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
Utilities' covered-employee payroll	\$ 384,000	\$ 383,000
Contributions as a percentage of covered-employee payroll	8.93%	8.93%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utilities will present information for those years for which information is available. The amounts presented are from the previous IPERS December 31 fiscal year.

Note: Amounts are rounded.

See accompanying independent auditor's report.

<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 31,000	\$ 35,000	\$ 29,000
<u>(31,000)</u>	<u>(35,000)</u>	<u>(29,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 348,000	\$ 415,000	\$ 386,000
8.76%	8.44%	7.50%

LENOX MUNICIPAL UTILITIES
Notes to Required Supplementary Information - Pension Liability
Year Ended December 31, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

(continued next page)

LENOX MUNICIPAL UTILITIES
Notes to Required Supplementary Information - Pension Liability - Continued
Year Ended December 31, 2015

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

* * *

See accompanying independent auditor's report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Lenox Municipal Utilities
Lenox, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lenox Municipal Utilities, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Lenox Municipal Utilities' basic financial statements and have issued our report thereon dated February 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lenox Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lenox Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Lenox Municipal Utilities' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

To the Board of Trustees
Lenox Municipal Utilities

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lenox Municipal Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matter which is described in Part II of the accompanying schedule of findings and responses.

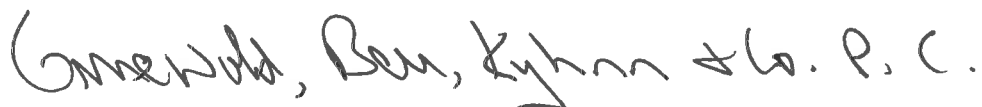
Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

Lenox Municipal Utilities' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Lenox Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Atlantic, Iowa
February 10, 2016

LENOX MUNICIPAL UTILITIES
Schedule of Findings and Responses
Year ended December 31, 2015

PART I - INTERNAL CONTROL DEFICIENCIES

15-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Utilities. However, this situation is common in small municipal utilities.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

15-II-A Certified Budget: Disbursements during the year ended December 31, 2015 did not exceed amounts budgeted.

15-II-B Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

15-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

15-II-D Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

15-II-E Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

LENOX MUNICIPAL UTILITIES
Schedule of Findings and Responses - Continued
Year ended December 31, 2015

PART II - REQUIRED STATUTORY REPORTING (Continued)

15-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

15-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

15-II-H Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

15-II-I Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

15-II-J Financial Condition: The Communications Fund had a deficit balance of \$400,494 at June 30, 2015.

Recommendation: The Utility should investigate alternatives to eliminate this deficit and return the fund to a sound financial position.

Response: The Utility is continuing to make improvements to the fund's operations, which will bring the fund back to a positive financial position.

Conclusion: Response accepted.

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